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THE IMPROVEMENT OF SMALL BUSINESSES IN A DEVELOPING COUNTRY

By Robert CAUSSIN,
Administrateur-Directeur
du Comité National Belge
de l'Organisation Scientifique,
Brussels, Belgium

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THE IMPROVEMENT OF SMALL BUSINESSES IN A DEVELOPING COUNTRY

By
Robert CAUSSIN, Administrateur-Directeur
du Comite National Belge de l'Organisation
Scientifique, Brussels, Belgium

1. The role of the small business in a developing country

In the most highly industrialised countries of the free world, it is notable that small businesses represent more than 90% of the total number of businesses in existence and employ more than 80% of the working population. These two figures are enough to demonstrate their importance in the economic and social life of a country.

Without minimising the influence of the other factors in the development of societies, it can be said that the small business basically plays the role of a "catalyst" of individual energies and activities,

- by stimulating initiative and responsibility;
- by contributing to the spread of techniques;
- by being a factor in increased productivity;
- by creating employment and purchasing power;
- by being a centre for trading in and distributing goods; and
- by promoting the integration of the individual into society by increasing the number of his relationships.

Not only is it an important factor in the social system, but also an essential level in the economic system. It is very closely identified with the trade or occupation. Regardless of the state of development of the area, it offers, where it does not exist, a concept which is easily assimilated. Whether in the primary sector (harvesting, farming and stock-raising), the secondary sector (crafts and small industry) or the tertiary sector (commerce and transport) it is a small unit which is easy to start, highly flexible and capable of expansion.

It is essential, however, that it should be quickly integrated into the overall structure. It is a part of the social

framework which demands careful erection, protection and encouragement, and whose methods of operation must be improved if they are to function effectively.

What direction should it be given in a developing country ?

The economic and social problems which the developing countries have to face differ greatly from one another, especially as regards:

- countries with a western type of civilisation such as Australia, South Africa, South America;
- countries with an ancient civilisation such as India and most Asian countries; or
- countries which have recently gained political independence such as a large number of the countries of tropical Africa.

However, certain common features do emerge in the evolution of these young countries. Under colonial rule the economy of the new countries was actuated by and on behalf of external forces, according to the needs of the foreign country. Now, since political power is restored to the national elite and the needs of the indigenous masses are making themselves felt, it is the Africans and Asians who are going to have to exploit their own countries on their own behalf(1).

This means, as far as agriculture is concerned, that priority, or more precisely the pressure on development over the next few years, will have to pass from export crops (sugar, cotton, cocoa, coffee, bananas, pineapples and oil-yielding crops) to food cultivation and the exploitation of natural resources to supply the population. The small family business will play a particularly valuable role in this task.

In the industrial sphere the import of capital goods and manufactured products essential to growth will give rise to the creation of new industries, each country trying to incorporate the maximum amount of local labour in its imports as well as into its own production. However, since the establishment of new industries is justifiable only if outlets are sufficient, small businesses, with their greater flexibility and economy of operation, will be in the van of industrial development.

The promotion of industrialisation and trade in the less developed areas will therefore depend above all on the development of home markets. Thanks to these local markets the young economies will be able to trade amongst themselves in their food and industrial products, create a local supply to meet local demand and thus achieve the essential balance.

In this phase of development the small business will have an essential part to play.

2. Characteristics of the small business

Attempts have been made to define the small business in terms of size and resources, but it is difficult to agree on a general definition applicable to every type of small business, every activity and every country.

Neither staff employed nor capital invested nor turnover supply a satisfactory yardstick. We must look for other characteristics, and it seems that the general definition set out in the Law establishing the Small Business Administration in the United States might be acceptable:

A small business is one which is independently owned and operated and which is not dominant in its field of operation(2)

The principal factor to emerge from this definition is that the smallbusiness is independently owned. It is autonomous. It is not dependent upon a large company nor is it a body controlled by a public authority. No matter what its constitution or the legal system under which it is allowed to operate may be, it is created and exists by individual initiative.

It is run by the owner himself, who works in it, possibly with the help of sleeping or active partners and perhaps in conjunction with assistants or associates, but who takes all the major decisions himself.

Finally, the small business is not dominant in its field of operation, which means that its resources and methods of action are limited and that its one or several branches of operation are exercised only within certain geographical limits.

Unified management and ownership and a close association between the capital and labour factors - these are the characteristics which enable the small business to perform its allotted task with the power of decision residing in a single person.

It is not necessary for the head of a small business to consult different groups of interests or to reconcile different economic agents. Aims are defined, plans made, data evaluated, factors and means studied and conclusions reached in the head of one man, who knows that he will have to take the consequences of the decisions he makes.

He will therefore try to work flexibly and to see that his private interests are compatible with the interests of his clientele and the general good. He will accordingly be a factor of social and economic coordination, peculiarly advantageous to the building-up of a national structure which must be balanced.

3. Advantages of the small business

By comparison with the large business, the small concern has undeniable advantages:

-- Independence and freedom of decision and action. The head of a small concern, the owner-manager, makes his own decisions as to the aims he can achieve and the policy and methods he intends to use. He takes suitable measures to meet the circumstances, provides for contingencies and follows or abandons an adopted line of behaviour at will, without having to ask the advice or obtain the consent of anyone.

-- Flexibility and speed of adaptation and action. The ability to adapt itself rapidly to changing conditions, and more rapidly than big competitors, is the small firm's trump card.

-- Easy coordination of effort. When plans or circumstances change, the small business can quickly bring its influence to bear on its staff, customers and suppliers. Being limited in number, its internal and external contacts are more direct, more personal and more convincing, thus enabling any adaptation to be made more rapidly and simply.

-- Favourable social climate. The relationship of the head of the firm to his assistants is less anonymous, less administrative, less juridical. More personality, understanding and human warmth can enter into them. The staff, treated as people and not as labour units, bring more goodwill, understanding and responsibility to their work.

-- Individuality of the head of the firm. Having practically no accounts to render, no worries as to the volume of production and only himself to rely on, he is less of a conformist and more receptive to novelty, original ideas and bold experiments, which in certain fields may be the very basis of success. He is more creative and more enterprising.

-- Small investments. The small business can operate with limited fixed assets and working capital. In many fields the fractionated nature and variety of operations and the narrowness of markets make it impossible to use high-output processes, because without large-scale production being fully employed the unit cost of the product would be too high.

-- Lower overheads. Having no high finance charges, nor the expenses of a huge administration comprising more staff, more grades and more auxiliary functions, the small business can undertake certain work at lower cost.

-- Less subject to official interference. Relatively speaking, the small business is subject to less legal obligations than the large. As regards book-keeping, legal, taxation and social welfare requirements, various margins and relaxations are often provided in favour of the small business.

These advantages are of course offset by difficulties of a different order.

4. Disadvantages of the small business

Although in certain respects it may be an advantage for a business to be small, it may also be a drawback.

Although the person running a small business is independent and needs to consult no one but himself, this also means that he has no competent subordinates to keep him informed nor experts to advise him. His technical experience may be excellent but his commercial and financial experience incomplete (or vice versa). Since he has not been able to estimate all its effects in advance, the

decision he takes may be unfortunate or untimely.

No doubt, as soon as a decision proves awkward he can try to put the situation right without delay. But, apart from the fact that certain decisions are irreversible, impulsive and contradictory judgements create disturbances in internal and external relations. Lack of decision at the right time - decisions not taken and left to others for want of precise and methodical information - may also prove disastrous. Hence, ultimately, a tendency to copy what others have carried out successfully.

The small business is very vulnerable to competition. Because it calls for small investments, a limited staff and special knowledge in a restricted field only, the success of a small business often attracts imitators. Moreover, as soon as the market expands, high-output plant may be introduced by larger firms which then want to obtain a larger share of the market for themselves. The small industrial firm is more vulnerable in this respect than the commercial or service firm.

Operating with slender resources and expenditure, the small business generally has no study, documentation or research departments. It is not always aware of progress and takes little part in promoting it. This applies not only to production and equipment but also to organisation and methods. It therefore tends to rely on tradition and established experience and is quickly threatened by newer firms.

Finally, financial resources are often very limited, which severely restricts possibilities as regards plant, stocks, adaptation to markets, sales promotion, loans, expansion, highly qualified staff, etc. It often proves necessary to resort to short-term borrowing, which entails heavier charges than the use of the firm's own capital.

These are sources of difficulty and risk which hamper the development or may even threaten the existence of the small business as soon as economic circumstances turn less favourable.

5. Individual means of improvement

The vital problem of the small business is that of the personality of its owner-manager. Its success does not depend on financial means, clientele, equipment, transport or site, but on the ability and personal experience of the man in charge. For the head of the firm, any steps towards improvement must start from a knowledge of his own strong and weak points and an awareness of his deficiencies.

Being independent and free to make his own decisions, the person running a small business does not always feel that it is necessary to set himself a well-defined plan of action, i.e. a programme. It seems to him that by so doing he is losing part of his freedom of action. What he in fact wants is to retain the ability to reverse his decisions without having to justify himself, even in his own eyes. A programme hampers him, because a comparison with reality reveals inadequate information, a mistaken judgement or absence of continuity of action. This, however, is the very

knowledge on which experience is based; one generally avoids the mistake one has recognised.

Drawing up a programme means deciding on an objective. It also means distinguishing between intangible fundamental principles and adjustments necessitated by circumstances. The person running a small business must learn to make plans, draw up a programme and formulate well-considered, judicious and prompt administrative decisions based on a broad view.

How is this to be achieved ? The means are varied and complementary:

- by seeking the advice of qualified persons (specialists, suppliers, customers, experts, bankers, official bodies etc.;
- by exchanging experiences with other heads of business who have similar difficulties and problems;
- by completing his training on points where it seems inadequate.

One result of deciding on a programme is obviously a certain degree of specialisation. A small industry cannot try to do everything. The local mechanic's workshop very soon starts to specialise, according to the needs of the district, in the assembly and maintenance of agricultural, textile or other machinery. This specialisation in its turn entails the adoption of special tools. Repetition of work leads to greater simplification and the application of more productive methods.

What is true of equipment is equally true of staff management. Repetition work can be entrusted to subordinate labour. The role of the head of the firm then becomes that of an instructor, a leader of men: he delegates his responsibilities. This calls for special aptitudes and appropriate training, because he must learn to direct his assistants.

Step by step, duties must be organised and the work of men and teams studied and coordinated. Outlets for products must be sought, discovered and exploited. The profitability of activities must be observed and checked. It is the application or organisational principles to which the head of the firm must accustom himself.

At the same time as he broadens his view of the future, the head of the business must initiate himself into administration. He must learn to prepare estimates, fix selling prices and draw up forecasts of estimated income and expenditure and long-term budgets covering future requirements and providing for the application of sums which become available. Points such as investment, profitability, depreciation and tax provision must be covered. He will quickly have to develop a good financial brain, which in most cases will have to be acquired.

An intensive effort at personal improvement along these various lines and a multiplication of his contacts with recognised sources of information will thus be the means whereby he makes

good his deficiencies(3).

6. Cooperative methods of action

In addition to efforts at personal improvement, small businesses can avail themselves of another very useful tool, namely cooperation between a number of firms of the same size. Organisation techniques, normally only available to large firms, can thus become accessible to small ones at a moderate cost.

Cooperation is capable of ensuring good results:

- in a given area, by covering different branches;
- in a given branch, by extending it to a wider area;
- in kindred branches also covering a large area.

The first step towards cooperation is the creation of trade associations, whose primary aim is to protect the mutual interests of its members but which soon develop into centres where they can exchange ideas and come to realise that different firms are faced with the same difficulties and problems.

More direct forms of cooperation involving smaller units can then evolve at a later stage, e.g.:

- purchasing groups to secure the advantages of bulk buying (in mechanical engineering the basic materials are often identical);

- collective marketing organisations for advertising, sales promotion, common selling agents, pooled transport etc.;

- joint research units for market surveys, testing laboratories etc.

These are traditional forms of cooperation, but others exist which tend to arise in response to the needs of associated undertakings, e.g.:

- recruiting, personnel selection and training units;

- pooled facilities such as secretarial, legal, accountancy, advertising, patent, insurance and factory health services etc.

Various structures exist for these forms of cooperation, ranging from the full cooperative (more often met with in agriculture than in industry) to the voluntary chain, involving a network of similar firms over a large area, and the small business association, designed to promote closer links without the autonomy of individual firms being lost (4).

Thanks to this form of mutual assistance the trades and industries concerned can automatically benefit from a centralised administration which protects their interests, provides them with the information necessary for the efficient management of their activities and assists them in profitable collective action which would be denied to the small firm on its own.

7. Aid from external sources

The small business is far from being entirely left to itw own devices in its efforts at improvement. Considerable assistance may be available to it from external sources which it might not think of seeking.

(a) Large firms, which sell equipment or materials for processing and at the same time provide substantial technical assistance in the form of advice on the installation and efficient operation of machines and processes. Often occupational training courses are available.

Large firms support small ones, which often represent their best customers. When introducing new articles they offer advice and guidance to small businesses utilising their products, suggest new applications and see that satisfactory results are obtained from them. Examples which quickly spring to mind are the efficient use of constructional material, machinery, electrical equipment, colouring matters and artificial fibres.

Large undertakings also use smaller ones as suppliers or sub-contractors. Du Pont de Nemours in the U.S.A., for example, buys from more than 30,000 firms both large and small(5). It assists them by research, testing, specifications, and technical or organisational advice, which enables them to supply better products at a lower cost to themselves.

As regards credit, installation, sales etc., aid goes far beyond mere advice. Many large firms even finance small ones wishing to set up in business and provide specialists to study their problems(6).

(b) The services of professional bodies are often neglected or under-estimated by small firms. Although the role of the association is to protect and promote the common interests of its members and not to solve the problems of a particular firm, a straightforward explanation of difficulties and drawbacks will often result in useful general advice from the officials of the body concerned, who in turn will be made aware of the current needs of the association's members.

(c) The same remarks apply to economic research institutes, national organisation committees, productivity offices and other study or specialised instruction bodies. A small firm anxious to make headway will do all it can to follow the work of such organisations in improving management methods(7).

(d) Banks and credit institutions should not merely be consulted when finance is needed. Close contact will often lead to useful advice on financial, legal, accounting and taxation matters etc. and will, when the time comes, bear fruit in the form of highly favourable terms between the bank and its customer(8).

(e) Finally, various government and local authority departments in any country are in a position to advise heads of small firms on management problems on which they lack information,

for example economic and social questions, labour legislation and safeguards, statistics, export outlets etc.

In heavily industrialised countries specialised bodies set up by or controlled by the government watch over the development of small firms and provide them with specialised advice (agriculture, crafts and commerce), thus ensuring healthy progress without harmful or stifling interference.

Although all these sources of assistance and information are normally accessible to smallfirms at a low cost, knowledge of them remains all too limited. Chambers of industry and commerce and manufacturers' associations should do all they can to make them known to their members by explaining to them the advantages accruing from such facilities.

8. Conclusions

The following recommendations can be made in closing this necessarily brief account of the means of improvement available to small businesses in a developing country:

(a) Small businesses have a very important part to play in a developing country. Their decentralisation and flexibility of adaptation places them in a better position than big firms to fulfil certain tasks, and their creation, welfare and development should therefore be given every attention.

(b) Although small businesses present certain disadvantages, these can to a large extent be remedied by education and assistance in which large firms, professional bodies and public authorities can all play a useful part.

(c) With the above in mind, small businesses should be encouraged to think in terms of cooperation, which will make them aware of their problems and potentialities. From a government point of view, cooperative institutions are a practical and efficient means of harnessing and coordinating the activities of small businesses in the wider interests of the nation.

The encouragement of a spirit of enterprise, education in economic matters and an awareness of social responsibilities are thus the three broad methods which we recommend in planning the improvement of small businesses.

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